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## Transcript of Ambassador Yeutter's Speech to the Brookings Institution's "Conference on Building a Canadian-American FTA," February 3, 1987

Clayton K. Yeutter

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1 arrows and given, as well as taken, good measure in the  
2 area of trade. No one is more candid, I think, in  
3 presenting the U.S. perspective on this issue and has done  
4 more for U.S. interests without, however, losing sight of  
5 the fact that we, the United States, are in the game over  
6 the long run, and insofar as the rest of the world  
7 prospers, so do we.

8 It gives me great pleasure to present to you  
9 Ambassador Clayton Yeutter.

10 MR. YEUTTER: Thank you, Bruce. That was a  
11 very gracious introduction and much appreciated. I must  
12 say to you and your associates and colleagues here at  
13 Brookings that you are deserving of commendations and  
14 accolades for putting on this kind of program. It is  
15 an important issue, and I am very pleased that you and  
16 your institution have focused on it.

17 I am going to speak for twenty minutes or so on  
18 the issue and then open up for questions for whatever  
19 period of time we have. Bruce, please cut it off whenever  
20 you feel it is appropriate and desirable to do so.

21 I have not had a chance to get briefed on all  
22 the comments that have been made today. I have heard  
23 some of them. I will respond to a few of those in my  
24 presentation, but I would be happy to address others in  
25 the discussion later this evening, if necessary and if

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1 anybody would like to raise them.

2 First of all, I would like to set at rest any  
3 reservations that anybody has about the importance of  
4 these negotiations and any doubts that our friends in  
5 Canada have about the U.S. attitude toward these negotia-  
6 tions. There has been some commentary to the effect that  
7 the United States, really, has not taken the negotiations  
8 serious or at least has not put a sufficiently high  
9 priority on them. I don't happen to agree with any of  
10 that. That certainly has not been my view at any time.  
11 I certainly have not indicated that viewpoint to anybody  
12 in the government of Canada or to anybody in the private  
13 sector of Canada, and I have never, never indicated that  
14 viewpoint in any speech that I have made to any group in  
15 the United States.

16 So, we do take it seriously. We do consider  
17 it a high priority. I have been saying that for 19 months,  
18 so I hope somebody pays attention on that issue.

19 I happen to think that it is the most important  
20 bi-lateral negotiation this country has ever had, and I  
21 have said that probably 300 times in speeches over the  
22 last 19 months. I hope that due attention is paid to  
23 that now as a result of this evening's festivities.  
24 I truly believe that.

25 We have an opportunity in this negotiation to

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1 open the borders between the United States and Canada  
2 and provide enormous economies of scale to the business  
3 firms of both countries that can provide competitive  
4 benefits to both, internationally, of immense proportions.  
5 That is the basic value of these negotiations, and that  
6 ought to be recognized by anyone who has any experience  
7 in business. Canadian business firms will benefit in a  
8 whole variety of ways from these negotiations because of  
9 the extension of markets that will be obtained in the  
10 United States and because of the economies of scale that  
11 will result from that, and American firms will benefit  
12 as well.

13 I don't happen to believe that American firms  
14 will benefit nearly as much as Canadian firms, but that is  
15 not important. The fact is that both countries are going  
16 to be significant beneficiaries. This is not a zero-sum  
17 game where somebody wins and somebody loses. This is  
18 an ideal situation where both countries will be benefi-  
19 ciaries.

20 Now, not every firm in both countries will  
21 benefit and not every industry in both countries will  
22 benefit. There will unquestionably be structural  
23 adjustment involved in this kind of an arrangement, but  
24 that is to be expected. That is a part of growth and  
25 evolution in capitalistic society, irrespective of whether

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1 or not we have free trade arrangements. You go through  
2 that in Canada; we go through that in the United States,  
3 inevitably. And, this may accelerate that to some degree  
4 in some areas, but so be it. I happen to think that is  
5 a strength and a pervayer of vitality, rather than a  
6 weakness and a detriment to the negotiations. I happen  
7 to think it is very clearly in the economic self interest  
8 of both Canada and the United States to complete the  
9 free trade arrangement.

10 Beyond the bi-lateral benefits and the self  
11 interest that is involved to the United States and Canada  
12 as nations, it seems to me that there is also a multi-  
13 lateral benefit. I happen to believe that if we do this  
14 job well and if we truly open border between these two  
15 major trading nations -- and I am convinced that we can  
16 do precisely that -- I believe that will set an excellent  
17 example for the rest of the world. To me, that is  
18 constructive bi-lateralism, and that is the kind of bi-  
19 lateralism that fosters and facilitates multi-lateralism.  
20 It sets an example for the rest of the world in opening  
21 markets and in providing freer and more open trade. That  
22 is the kind of bi-lateralism that is commendable in the  
23 world today. I don't see that as detracting from multi-  
24 lateralism; I see that as contributing to multi-lateralism  
25 and showing the way and in doing so at a propitious time

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1 in the context of multi-lateral challenges. Or, putting  
2 it another way, it will set an example for the Uruguay  
3 Round of the MTN. We will go through a lot of skirmishing  
4 in the MTN this year, meaning 1987 at a time when, hope-  
5 fully, we will bringing the U.S.-Canada negotiations to  
6 a conclusion.

7 If then we get to very serious negotiations in  
8 Geneva in the MTN in 1988 -- as I believe we will and in  
9 some areas even in 1987 -- what we achieve in the U.S.-  
10 Canada free trade arrangement can clearly provide not only  
11 an example but perhaps even a model for some of the  
12 negotiations in Geneva and in the Uruguay Round.

13 Well, enough on the importance of this exercise  
14 and the value to the two countries.

15 Let's be a bit more mundane now and speak a bit  
16 about the process itself in the negotiations. As all of  
17 you know, the fast-track authority for this process  
18 expires January 1 or January 3, I believe it is, of 1988,  
19 which means, as a practical matter, if we are to present  
20 this agreement to the United States Congress in a timely  
21 way, we would need to reach final agreement by somewhere  
22 around October 1. That means that we have a significant  
23 negotiating challenge ahead of us between now and October  
24 one because that is not a lot of time, and we have a lot  
25 of issues on the plate.

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1           But I am not in any way intimidated by that  
2 time schedule. I hope our friends in Canada -- particularly  
3 in the government of Canada -- are not intimidated by  
4 that time schedule. I think we can meet that, from our  
5 standpoint, and I hope it can be met from the standpoint  
6 of Canada.

7           We have a whole host of working groups on an  
8 inter-agency basis which have been functioning here for  
9 quite some time, as you well know. I am sure that a  
10 similar organization prevails in Canada. Those are all  
11 at work. We have had to wait on tariffs, at least, for  
12 the advice of the U.S. International Commission before  
13 we could move forward in an active way. That advice is  
14 now available to us. We are prepared to move forward in  
15 a an aggressive way with the tariff negotiation, and we  
16 are prepared to move forward very soon on everything else.

17           If we can do what Peter Murphy and his friends  
18 here in the U.S. have set out to do and what hopefully  
19 Simon Reisman and his friends in Canada have set out to do,  
20 then I am convinced that we can pull it all together by  
21 October 1 or thereabouts. We have a comprehensive agenda  
22 here in the United States. We have a lot that we would  
23 like to get accomplished, but I don't see any reason why  
24 we cannot do so.

25           I am told that there was some concern expressed

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1 here today about the inadequacies of consultations here in  
2 the United States, both with the Congress and with the  
3 private sector. I don't happen to agree with that, either.  
4 I would like to embellish that. I don't know where that  
5 criticism is arising. I think it has come from some of  
6 the people who have made presentations today, but I would  
7 like to just comment on both of those factors.

8 My first general comment is that it seems to me  
9 that all of us ought to be cognizant of the time that is  
10 involved in the consultation process. Putting it another  
11 way, I don't think that we ought to have our negotiators  
12 trotting over to Capitol Hill, consulting with Members of  
13 Congress unless they have something to consult about. I  
14 don't think we ought to be calling members of our private  
15 sector into Washington or anywhere else to have consul-  
16 tations with them unless we have something worth talking  
17 about.

18 These are busy people. At least, I hope they  
19 are busy people. They claim they are sufficiently busy.  
20 They say they ought to have a raise that is being voted on  
21 today or tomorrow. I happen to share the view that they  
22 ought to have that raise, but that is not quite relevant  
23 to the issue here tonight.

24 I don't want people, including my own people,  
25 to come in and consult with me unless they have something



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1 worthwhile to say, and I don't believe that we ought to  
2 take up the time of Members of Congress or take up the  
3 time of people in the private sector who are attempting  
4 to earn a living unless we have got something to say.

5 The fact of the matter is that we have been  
6 going through a skirmishing phase of these negotiations  
7 over the last several months, and there hasn't been a lot  
8 to say on either side. Now that we are getting down to  
9 business, as hopefully we will, in an intense way between  
10 now and the first of October or thereabouts, there ought  
11 to be ample opportunities to consult and a lot to consult  
12 about.

13 Let me make it very clear that we are  
14 appreciative of any input the Members of the U.S. Congress  
15 have to this process, and we are most appreciative of  
16 input coming from the private sector. And, we will listen.  
17 I think I have done that, myself, all my lifetime, and I  
18 don't intend to change that modus operandi now. So, there  
19 will be ample consultations with the U.S. Congress, and  
20 there will be ample consultations with the U.S. private  
21 sector between now and the end of this exercise and we will  
22 try to listen to everybody and finish with a work product  
23 that will be acceptable and marketable on Capitol Hill.

24 Peter Murphy, clearly, shares that viewpoint,  
25 and I don't see any reason for further discussion of that

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1 point.

2           Apparently someone made the point here today,  
3 too, that there is a difference in rank between Ambassador  
4 Murphy on our side and Mr. Reisman on the Canadian side,  
5 or, at least, a difference in reporting, where, in our  
6 case Ambassador Murphy reports to me, and, in the Canadian  
7 case, presumably, Mr. Reisman reports, allegedly, directly  
8 to the Prime Minister.

9           Well, I am not concerned about reporting  
10 responsibilities in Canada. As far as I am concerned,  
11 the government of Canada can organize its negotiations  
12 however it wishes. But I will say that I happen to think  
13 the Ambassador Murphy is a skillful negotiator. He may  
14 not be half as good as Simon Reisman and, therefore, we  
15 may end up with the short end of this negotiation, but I  
16 am prepared to take that chance. I will accept the  
17 responsibility for the ultimate work product, and if it  
18 turns out that way, then everybody in the United States  
19 can castigate Ambassador Yeutter for the inadequacies of  
20 the negotiations. But let's wait and make that judgment  
21 when the exercise is finished and let's not do it now.

22           It seems to me that at the beginning of a true  
23 negotiating process, it is not a desirable time to second  
24 guess the skills of the negotiator. Let's second guess  
25 the skills of the negotiators at the end of the process

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1 and not now.

2 With respect to the objectives of the agreement --  
3 and I will not speak for Canada's objectives, obviously --  
4 but from the standpoint of the United States I will say  
5 that we would like to go farther with this agreement than  
6 we have with the U.S.-Israel agreement. That may be an  
7 ambitious undertaking, but I do not believe that it is  
8 an unrealistic undertaking.

9 In particular, we would like to see that occur  
10 in some of the areas that are of interest to us on an  
11 international basis, as well as a bi-lateral basis. These  
12 include the kinds of topics that we gave a great deal of  
13 emphasis to at Punta del Este, and we will do in the new  
14 GATT round and we hope that we will be joined by Canada  
15 in that regard.

16 These are areas like intellectual property  
17 and services and investment, and those three in particular  
18 where there are major difficulties around the world and  
19 a lot of opportunities to improve the international  
20 trading system. We would like to see the U.S.-Canada  
21 agreement set an example and provide some models in all  
22 of those areas, and we hope that is achievable in the  
23 free trade arrangement.

24 Agriculture also is a high priority to both of  
25 us in the new GATT round in Geneva. I know there has been

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1 considerable discussion on that issue here today and the  
2 question raised as to just how much can be achieved in  
3 agriculture bi-laterally. I would share that analysis  
4 because agriculture is a global problem. It is not a  
5 U.S.-Canada problem. There are only certain facets of  
6 the agricultural situation that can be dealt with effec-  
7 tively bi-laterally or unilaterally by either of our  
8 countries, and that clearly has to be built into the  
9 negotiating exercise.

10 But I am certainly not prepared to suggest that  
11 we can do nothing in agriculture in the U.S.-Canada  
12 negotiation. I happen to think that we can do quite a  
13 lot in some areas. There is no reason why we can't take  
14 on the tariff issues that arise in agriculture. There is  
15 no reason why we can't deal with standards-kinds of  
16 questions, and certainly why we can't deal with any kinds  
17 of trade problems with agricultural products that are not  
18 likely to be on the MTN agenda. I am thinking particularly  
19 about specialty-kinds of crops which are unlikely to be  
20 negotiated to any great degree in Geneva.

21 So, let's try to solve those problem and open  
22 the borders in those areas between the United States and  
23 Canada in the free trade arrangement, if we can.

24 What I would call the big-ticket items, such as  
25 grains, clearly are multi-lateral in scope, and it seems

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1 to me that there we are going to have to await the results  
2 of Uruguay Round, and whatever those happen to be, we  
3 ought to fold them into the free trade arrangement at a  
4 later date. I see no reason why we can't make that kind of  
5 an institutional accommodation on both sides of the border.

6 With respect to other issues -- non-tariff  
7 measures, a number of automobile issues, all the tariff  
8 items -- we clearly have major objectives in all of these  
9 areas, and I hope we can achieve them. I assume that  
10 Canada has major objectives in these same areas, and I  
11 hope Canada can achieve its objectives with us.

12 Clearly, we are talking about a program that will  
13 phase in over a period of years. Neither the United  
14 States or Canada is going to make major changes overnight  
15 in most of these areas. We used a ten-year program in the  
16 U.S.-Israel arrangement. I suspect that something of that  
17 nature will emerge in this one, as well.

18 Then, perhaps, just a comment on the question of  
19 unfair trade practices and how they will be handled. It  
20 seems to be a priority of the Government of Canada to  
21 discuss the issue of subsidy and counter-vailing duty  
22 laws and anti-dumping laws. In particular, in the United  
23 States, as a part of this negotiation, as far as I am  
24 concerned, those are proper subjects for discussion.

25 I have indicated over and over again that in

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1 my judgment we ought to have everything on the table in  
2 the U.S.-Canada negotiation. We are prepared to have  
3 everything on the table, if Canada is. So, I would hope  
4 that the Government of Canada would respond in kind, and  
5 let's discuss everything.

6 What we can do that makes sense in that area is  
7 another matter because I don't believe we want to finish  
8 this exercise with a result that in any way would foster  
9 or stimulate the generation of unfair trade practices.  
10 We ought to try to conclude this exercise with an outcome  
11 that will discourage unfair trade practices on both sides  
12 of the border. That is going to take some very creative  
13 thinking and creative negotiating. But we are prepared  
14 to listen to any suggestions or recommendations that are  
15 brought forth, either on this side of the border or on the  
16 Canadian side of the border in that regard.

17 If we can provide some models for the world in  
18 this respect, let's develop some models and see where it  
19 takes us.

20 I would just make one analogy in that regard.  
21 That would be to our semi-conductor agreement with Japan,  
22 which at the moment is having its problems in implementation,  
23 but that isn't to say that the concepts that are encompassed  
24 in that agreement are in any way unsound. One of the  
25 things that we have attempted to do in that semi-conductor

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1 arrangement is to provide for what I would call "preventive  
2 dumping." That is a system of handling the practices of  
3 firms in such a way that they are discouraged from dumping,  
4 rather than punished. It is preventive medicine, rather  
5 than curative medicine.

6 If we can effectively discourage the dumping of  
7 semi-conductors by the Japanese, perhaps there are ways  
8 to use that model in this exercise or in others. It  
9 seems to me that, as in medicine so in trade, it is  
10 better to prevent unfair trade practices than to come  
11 along and attempt to cure them.

12 My final comment would relate to the general  
13 outlook for this exercise. Someone told me, as I walked  
14 in this evening, that there is a considerable amount of  
15 pessimism prevailing in this conference today about the  
16 likelihood of bringing this exercise to a successful  
17 conclusion. There seems to be a general consensus that it  
18 is a good idea and that we ought to have a free trade  
19 arrangement, but a lot of doubt as to whether it will ever  
20 come to pass.

21 I don't know whether that is an accurate  
22 assessment or even if it is accurate for this group  
23 whether that accurately reflects the attitudes of the  
24 people of Canada or the people of the United States.

25 I don't happen to believe that it does, here in

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1 the United States, but I haven't taken any polls and so  
2 I can't provide definitive answers.

3 All I would like to say on that subject is that  
4 I don't see any reason to be pessimistic about bringing  
5 a good idea to fruition. We ought to be able to find  
6 the skills and the commitment and the determination within  
7 the governments on both sides of this border and within  
8 our respective private sectors to bring this about.

9 If it is really a sound idea -- and I am  
10 convinced that it is -- then sound ideas ought to be  
11 brought to fruition, and those of you who are in the room  
12 tonight who have a lot of leadership capabilities and  
13 leadership roles can join with those of us in government --  
14 and hopefully will join -- to try to bring a positive  
15 outcome into effect by October 1, which is our deadline.

16 I just don't believe in being pessimistic about  
17 exercises of this nature. This isn't to suggest that they  
18 are not difficult to achieve because a lot of things are  
19 difficult to achieve. Worthwhile things are usually  
20 difficult to achieve, but we ought to go about doing it.  
21 And, we ought to have the intensity of commitment to bring  
22 it about, and I am convinced that we can do so.

23 Bruce, thank you very much. Let's go to some  
24 questions.  
25

- - -



## QUESTIONS AND ANSWERS

MR. YEUTTER: As for questions, I will just take them from here, Bruce, if that is alright with you.

Please don't be bashful.

PARTICIPANT: Mr. Ambassador, the suggestion has been made today that within the last two weeks there has been a new directive or a new push, presumably, from your political masters to really advance and go more aggressively after this free trade agreement.

How do you respond to that?

MR. YEUTTER: As far as I am concerned, the determination has always been there. I don't see any difference today from two weeks ago. Clearly, Vice-President Bush and Secretary of the Treasury Baker visited Japan at the invitation -- oh, "Japan," wow. You can tell what trade problems are on my mind at the moment. Semi-conductors are still in the back of my mind, as you can tell.

Vice-President Bush and Secretary Baker visited Canada a few days ago at the invitation of your government, but I don't see that as really having an impact on the environment. Clearly, that was a positive visit. They were pleased to make that trip to Ottawa and to confirm the commitment and the determination of the government of

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1 the United States to move forward, but I don't see this  
2 as a new impetus or a new push.

3 We were well involved in this process and moving  
4 it along in what I believe to be an effective way prior  
5 to that time, and we will continue to do so.

6 PARTICIPANT: May I have a supplementary question?

7 MR. YEUTTER: Certainly.

8 PARTICIPANT: The New York Times the other day  
9 stated that you or the USTR Office has been more or less  
10 told not to put the Canadians on steel, that a repetition  
11 of the lumber tariff, if applied to steel, would set off  
12 so many landmines for Prime Minister Mulroney, that it  
13 would torpedo the free trade talks.

14 Has there been such a directive? Has there  
15 been an expression of symptoms in that direction?

16 MR. YEUTTER: There has not, but I would like to  
17 comment further. I have said over and over again that  
18 both Canada and the United States should separate the  
19 consideration of short run issues from long run issues.

20 I realize that is difficult to do and that  
21 people out in the country are not always prepared to do  
22 that, that there is inevitably some linkage, but we ought  
23 to try. That is an educational process in both Canada  
24 and the United States. The free trade arrangement is an  
25 exercise that, hopefully, will benefit both nations in

1 immeasurable and indispensable ways over the next half  
2 century or century.

3 To suggest that this very necessary and invaluable  
4 negotiating exercise should in some way be held hostage  
5 to individual bi-lateral trade problems, no matter how  
6 important they may be, just seems to me not to be a sensible  
7 proposition.

8 We ought to be able to overcome the temptation  
9 to tie an enormously valuable effort of this nature to  
10 transitory trade problems that should be in some way  
11 disposed of by our two countries in a relatively short  
12 period of time.

13 After all, if this is an exercise that will  
14 finish in 1987, be approved by both governments, say, in  
15 1988, and then implemented over a period of ten to twelve  
16 years, we are talking about an agreement that will not  
17 fully go into effect until the year 2000. To suggest that  
18 what is happening in 1987 on timber or steel ought to  
19 dissuade the two countries from moving forward with an  
20 agreement that will be beneficial to them both in the  
21 year 2000, I just find incomprehensible, and I hope thinking  
22 people on both sides of the border will come to those  
23 same conclusions.

24 That says to me that we ought, that in the two  
25 countries we ought to have the maturity to be able to deal

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1 with difficult bi-lateral trade problems of a temporary  
2 nature, whether they be softwood lumber or shakes and  
3 shingles or steel or any one of a dozen issues.

4 Let's deal with them one by one, try to resolve  
5 them as friends. We can deal with those kinds of questions  
6 amicably. There is no reason why we should not be able  
7 to do so. They may be difficult. They may be contentious.  
8 And they may have political implications on both sides of  
9 the border. But, nevertheless, we ought to be able to  
10 handle them as neighbors and as friends and finish those  
11 negotiating exercises in such a way as to emerge as good  
12 or better friends than we were before.

13 We have gone through a comparable kind of  
14 discussion with the European Community this last week with  
15 our so-called Article 24-6 negotiation on the accession  
16 of Spain and Portugal. The Community kept saying to me,  
17 "Ghee, you ought not rock the boat on this issue because  
18 we might be able to support an agricultural negotiation  
19 in the new GATT round if you do."

20 Well, the same analogy applies. The agricultural  
21 negotiation in the new GATT round is too important to in  
22 any way be linked to a 24-6 dispute over corn going into  
23 Spain. We are talking about an agricultural negotiation  
24 of great importance to the entire world and one that is  
25 going to set the environment in which agricultural trade

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1 will be conducted over the next ten, twenty, or thirty  
2 years. To suggest that that ought to be put on hold  
3 because we are debating the trade damage of the accession  
4 of Spain to the EC, also seems incomprehensible to me.

5 Well, fortunately we settled that one, and  
6 fortunately I hope the agricultural negotiation in the  
7 new GATT round will proceed. I hope we can settle our  
8 disputes with the government of Canada on steel and every-  
9 thing else and, likewise, proceed with the free trade  
10 arrangement. That, certainly, is our objective.

11 But I don't believe it makes sense to have  
12 steel or any other issue fester during the time that this  
13 negotiation is underway. I don't believe that is in the  
14 interest of Canada, and I don't believe that is in the  
15 interest of the United States.

16 I think the people of both countries deserve  
17 better than that.

18 PARTICIPANT: You referred briefly to automobiles,  
19 Mr. Ambassador. I wonder if you could elaborate a bit  
20 about the problems and the opportunities in that field.

21 MR. MACLAURY: Could you repeat the question,  
22 please?

23 MR. YEUTTER: Yes. The question was, what about  
24 automobiles and would I comment on the problems and  
25 opportunities in that area.

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1 Well, I don't have any desire to get into any  
2 detail on that because I am not ready to get into detail  
3 on that. Not that I shy away from questions, as I hope  
4 you have recognized by now, but simply because that is a  
5 major item of trade between our two countries, as you well  
6 know, and is a very complicated issue. We have not  
7 mutually agreed at this point on how automobile issues  
8 will be dealt with in this negotiation.

9 Suffice it to say that we intend to raise issues  
10 involving automobile trade with the government of Canada.  
11 Some of those issues have already been surfaced, the  
12 duty remission scheme being one that has had a lot of  
13 attention, not only within the Administration here or  
14 discussion within the Administration but also some  
15 attention on Capitol Hill by Mr. Dingel, Chairman of  
16 the Energy and Commerce Committee and others.

17 Those are issues that cannot be swept aside and,  
18 in my judgment, should not be swept aside. So, there will  
19 be automobile issues that require discussion and debate  
20 in this exercise, but it is premature to come to any  
21 conclusions as to how they will be handled or what the  
22 ultimate outcome may be.

23 MR. WEISS: Mr. Ambassador, if I caught the sense  
24 of our discussion today correctly, I think the pessimism  
25 was not so much about the ultimate outcome and feasibility

1 of negotiating a free trade arrangement, as it was with  
2 regard to the feasibility of completing the job by  
3 October 1. In that respect, notice was taken that there  
4 are a lot of new issues, important issues, desirable  
5 issues, such as services but they are complicated issues  
6 and it may be very difficult to achieve anything  
7 substantive there.

8 That raised the further question as to whether  
9 when we get to October 1 and the job isn't completed, what  
10 do we do at that point?

11 MR. YEUTTER: Okay, good question. For those  
12 who might not have heard it, the issue is what do we do  
13 if we can't get this job done by October 1. There are a  
14 lot of complex issues to deal with in the negotiations  
15 between now and then. If we just simply can't get them  
16 resolved by October 1, what then is to happen?

17 Well, I can't speak for either government,  
18 obviously, because we are dealing with a hypothetical  
19 question, and both governments will obviously appraise the  
20 situation at that point in time and make a decision as to  
21 where to go beyond that.

22 My judgment would be -- again, based upon my  
23 earlier comments -- that this is too important an exercise  
24 to simply punt at that point in time, so if we just  
25 couldn't get it done, we ought to try to extend the time

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1 available, which would mean that we would have to get an  
2 extension of the fast-track authority here in the U.S. in  
3 order to do so.

4 I would rather not go that route. I would  
5 prefer that we try to meet that timetable, but we will  
6 evaluate all aspects of the situation on October 1, if  
7 that be a necessity.

8 Whether the Congress would be prepared to give  
9 us additional fast-track authority at that time remains  
10 to be seen. That would probably depend very much on  
11 what the potential outcome looked like at that moment in  
12 time. In other words, that would have to be a static  
13 evaluation based upon the conditions that existed on  
14 October 1.

15 But if major progress was being made and there  
16 were a few loose ends that remained to be wrapped up, I  
17 would assume that the U.S. Congress would grant fast-  
18 track authority to go beyond the October 1 date.

19 My experience, though, as a negotiator -- and  
20 this would be the caveat to that -- is that negotiations  
21 usually go as fast as they need to go. If one extends  
22 the time by a year, then people will mark time for another  
23 12 months, and you will still run into the deadline. That  
24 seems to be the experience in most bi-lateral and multi-  
25 lateral negotiations.



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1 PARTICIPANT: Would you address the question  
2 of staged agreements versus fast-track extension?

3 MR. YEUTTER: The question is: Can we have  
4 staged agreements rather than an extension of the fast  
5 track?

6 That would, obviously, be a possibility but not  
7 as realistic, in my judgment, because of the necessary  
8 tradeoffs that are very likely between and among the  
9 different agreements. In other words, you have to have  
10 self-balancing agreements that could stand on their own  
11 in order to put them in effect on that basis, or you  
12 have to have some way of evaluating the amount of debt  
13 that Canada had to the U.S. or vice versus, based upon  
14 those earlier agreements. That adds an additional  
15 complexity to the negotiations that would not likely be  
16 very helpful. It seems to me that it is much better to  
17 do the entire exercise as one package. That would help  
18 in terms of congressional approvals here in the United  
19 States and, I suspect, in Canada, as well.

20 We are just not likely to bring back a partial  
21 package and have that greeted with enthusiasm by the  
22 U.S. Congress. Congress is likely to want to see the full  
23 package, so the more likely result is to have an extension  
24 of time.

25 MR. MACLAURY: During your remarks you mentioned

1 the phrase, "everything is on the table." That has come  
2 up a couple of times during our discussion today. Don

3 MacDonald is the one who said that although that  
4 sounded like a very reasonable proposition in the abstract,  
5 in fact, to some Canadian ears it means such things as  
6 cultural autonomy are likewise on the table.

7 The question then comes: Aren't you offending  
8 some of the people in Canada who might be your strongest  
9 supporters by not circumscribing, to some extent, that  
10 sweeping statement that "everything is on the table"?

11 MR. YEUTTER: Well, I guess the question is  
12 whether Canadians are more concerned about preservation  
13 of their cultural autonomy or whether Americans are more  
14 concerned about preservation of their cultural autonomy.

15 So, I am not sure how to evaluate that. Both  
16 of us have our cultures at stake. I guess I am prepared  
17 to have America's culture on the table and take the risk  
18 of having it be damaged by Canadian influence after a  
19 free trade arrangement. I hope that Canada is prepared  
20 to run that risk, too.

21 I don't mean to be facetious about this. I  
22 recognize that that is a serious issue in Canada, but I  
23 would respond only to say that Canada, as a sovereign  
24 nation, can decide what it wants to have on the negotiating  
25 table, and if Canada is determined to take things off the

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1 table, whether it be cultural or anything else, it  
2 certainly has the sovereign right to do so.

3 There is a price to be paid for beginning to  
4 take things off the table, of course, because one's  
5 negotiating partners at that time will also take things  
6 off the table. This will happen, whether we are talking  
7 about a bi-lateral between U.S. and Canada or whether we  
8 are talking about the multi-lateral negotiations in  
9 Geneva. It is just not realistic to expect that one  
10 negotiating partner can take a lot of things off the  
11 table but that the other negotiating partner is going to  
12 leave everything on the table.

13 So, if we want to go that route, mutually, we  
14 can do so, but that will clearly will shrink, then, the  
15 terms and parameters of the negotiation and will not move  
16 as far toward a free and open trading system between our  
17 two countries as would otherwise be the case.

18 Canada will have to make that decision; we will  
19 make that decision here, too.

20 I just believe that it is in the best interest  
21 of both countries to move as far as we can toward opening  
22 up to each other. I am not enthusiastic about proposals  
23 that are designed to shrink the negotiations even though  
24 there may be very good reasons to do so.

25 MR. WARREN: Mr. Chairman, we may have a little

1 problem with a confusion of terms here tonight. I think  
2 that most commercial negotiators would respond to what you  
3 have said about a person taking something off the table,  
4 meaning that there is a smaller area for negotiation and  
5 consequences for the second part.

6 But in a relationship which is of disparity in  
7 terms of popular culture, as presently exists between  
8 the smaller North American partner and the larger one  
9 and when the uniqueness of Canada, whatever that is, is  
10 so precious to us, I think it would be concerning us if  
11 we were to conclude that your option was that our worry  
12 about the ability to evolve as the northern North American  
13 partner was equated in your mind with withdrawing some  
14 commercial things from the table. That certainly would  
15 not be the way most Canadians would feel about their  
16 desire and their capacity to live with you as two separate  
17 entities in North America.

18 MR. YEUTTER: Well, that is one of the difficul-  
19 ties, Jake, of dealing with abstract concepts. I am not  
20 sure what you mean, Jake, or what the government means  
21 when it says that cultural sovereignty cannot be a subject  
22 for negotiation. You have to be more specific for me to  
23 make an evaluation of what that means in the context of  
24 these negotiations.

25 So, maybe we are going to have to leave that

1 for the negotiating table where people can be specific  
2 in outling just what that means in the context of this  
3 exercise.

4 I happen to think Canadian culture is marvelous.  
5 It is one of my favorite countries in all of the world,  
6 as some of you know. I honeymooned in Canada a good  
7 many years ago. So, I like Canadian culture and I  
8 certainly don't have as an objective in any way to  
9 adversely affect that culture.

10 MR. WARREN: On that basis, I refuse to comment.

11 MR. YEUTTER: Okay. Maybe we had better leave  
12 that one alone for the moment.

13 PARTICIPANT: You said that Canadian culture  
14 was at risk here and the American culture was at risk  
15 here. Could you tell us more specifically how a free  
16 trade agreement might put American culture at risk  
17 through Canada?

18 MR. YEUTTER: Well, in the same way that it  
19 would put Canadian culture at risk. I don't see this,  
20 for me, as being a major concern. But it obviously is  
21 a concern within Canada. As I said, I hope that our  
22 Canadian friends can articulate with greater specificity  
23 just what is encompassed in this term and in any constraints  
24 that that may have on the negotiating process.

25 I realize that this is an issue of great

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1 sensitivity in Canada, and I have said that a couple of  
2 times here now this evening. We are going to be as  
3 reasonable as we can in this whole negotiation exercise,  
4 and if we can be as accommodative to these kinds of issues  
5 because of their great sensitivity in Canada, we will  
6 try to do so.

7 But it will have to be done in terms that are  
8 more specific. I am not terribly concerned about it from  
9 the standpoint of the United States. As I was implying,  
10 we are prepared to have the cultural aspects of America,  
11 the United States of America on the table. I don't see  
12 those as being a part of this economic negotiation.

13 Maybe from Canada's viewpoint it is an element  
14 of the negotiation, but we can't decide that tonight  
15 until someone is more specific about what is meant.

16 MR. BEIGE: It is quite clear that both of our  
17 countries have very substantial current-account deficits  
18 at the present time. What I would like to have some  
19 sense from you, if you didn't mind giving it to the  
20 Canadians particularly, is the sense that the Administra-  
21 tion has about, one, what kind of progress you are looking  
22 for in 1987 on the aggregate U.S. trade deficit, and,  
23 two, how important you sense that is likely to be, that is,  
24 progress on that trade deficit in terms of the congressional  
25 attitude on trade issues, not only bi-laterally but

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1 multi-laterally, as well.

2 MR. YEUTTER: The question is what do I see on  
3 the trade deficit front in the United States in the coming  
4 year and what effect will that have, particularly in terms  
5 of congressional relations, on bi-lateral issues of this  
6 nature.

7 It is awfully dangerous to estimate changes in  
8 trade flows because they are subject to so many factors,  
9 many of which are outside of the control of the government  
10 of the United States. They depend, to a considerable  
11 degree as you know, on what happens in western Europe and  
12 Japan and a lot of other places.

13 But looking at it in 1987 terms, which is  
14 relatively short run, I rather subscribe to Fred  
15 Bergston's thesis that our trade deficit will shrink in  
16 1987 and I believe is estimating something in the \$30 to  
17 \$40 billion range. In my judgment that is not an  
18 unreasonable expectation under the economic conditions  
19 which prevail today. I really believe that we are about  
20 to move into a timeframe of improvements in the trade  
21 deficit, but we will still be fighting a very, very large  
22 global deficit at the end of the year, even if that occurs,  
23 as you well know. We are starting from a base of a \$170  
24 billion deficit right now.

25 What affect will that have on the Congress?

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1 Well, clearly improvement will be beneficial psychologically  
2 everywhere. At least it will be helpful to have the  
3 trend going in the right direction, if that happens in  
4 1987, and we hope it will.

5 But those who wish to take legislative action  
6 to counter it will obviously continue to use the argument  
7 that even though it is improving, it is still too large  
8 and we ought, therefore, to do something about it.

9 There will be both opinions, of course, articulated  
10 on Capitol Hill at great length in 1987.

11 Insofar as the relationship of that issue to  
12 this exercise, again, I would make the basic distinction  
13 between short run and long run. I don't believe that we  
14 can or should give much attention in this exercise, either  
15 to what global or bi-lateral trade deficits happen to be  
16 this year in Canada or in the United States or, for that  
17 matter, to what our exchange rate situation happens to be.

18 Apparently there was some discussion today about  
19 the U.S.-Canada exchange rate. I have a hard time  
20 understanding why that should be of major concern now  
21 when, again, we are talking about the kind of trading  
22 regime we will have in the year 2000.

23 So, we ought to try to keep all of that in  
24 perspective. I see the situation getting better, but I  
25 really believe we ought to isolate it from the discussion



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1 of the merits of the free trade arrangement.

2 PARTICIPANT (Ms): You mentioned that you would  
3 like to see such issues as services and intellectual  
4 property discussed.

5 MR. YEUTTER: Yes.

6 PARTICIPANT: Yet, we in Canada right now are  
7 just starting to analyze the proposals for regulatory  
8 reform. This will take some time. Several observers  
9 have suggested that trade in services be dropped from the  
10 fast track. And yet again, tonight you suggested that  
11 you do not like partial agreements.

12 Do you think then that you would deal with such  
13 topics in broad strokes?

14 MR. YEUTTER: Well, I would hope so. I happen  
15 to think that we ought to try to achieve positive results  
16 and significant results in all of these areas in this  
17 arrangement because they are important areas to both  
18 countries and to the world. We have an enormous amount of  
19 services trade between the United States and Canada today.  
20 Hopefully there will be<sup>a</sup> lot more in the future. But we  
21 should want to do something in the way of a sound system,  
22 of establishing a sound system for the conduct of services  
23 trade between our two countries, if that kind of economic  
24 interchange is to expand in the future. Services are  
25 going, the whole area of services is likely to be a growth

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1 area internationally for both Canada and the United States  
2 which are sophisticated countries.

3 As for intellectual property, there is the same  
4 kind of situation. I don't see how anyone can defend  
5 international piracy in the intellectual property area  
6 anywhere. Therefore, it seems to me it is in the interest  
7 of both countries to support very strong and effective  
8 regimes in intellectual property. That is not the way  
9 to conduct business. Do we conduct business between  
10 Canada and the United States or either of our countries  
11 with the rest of the world on the basis of piracy of  
12 copyrights and patents? We ought to be much more mature  
13 as societies and political systems than that, so it seems  
14 to me that we should share a laudable goal of improving  
15 intellectual property regimes throughout the world.

16 That is the second one.

17 The third one is investment. It just seems to  
18 me that it is apparent that trade and investment go hand  
19 in hand, and it would seem incongruous to me that we would  
20 engage in negotiations of a trade regime that would be  
21 intended to open our two borders but then not do the same  
22 thing in an investment regime because businessmen don't  
23 separate trade from investment. They make trade-and-  
24 investment decisions together. How do you say to a  
25 Canadian businessman or a U.S. businessman, "We are going

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1 to open the border to your products, but you can't put  
2 investment in the other country"? They are two sides of  
3 the same coin, in many, many respects.

4 So, we ought to try to make progress in the  
5 investment area, as well. That is why I think that there  
6 are meritorious arguments to including them all. Can we  
7 get them all done by October 1? I don't know; time will  
8 tell.

9 PARTICIPANT: When the negotiations began, I  
10 assume there were some ideas about what could be accomplished  
11 over the next three years with a time schedule and the  
12 expectations of elements.

13 I was in Toronto a couple of weeks ago, and there  
14 was on the front page a long interview with Ambassador  
15 Niles in The Toronto Star in which he made the statement  
16 that when this trade issue was first raised in Washington,  
17 there was no one in Washington who had the slightest idea  
18 that this would be a big political issue in Canada. It is  
19 of enormous consequence in the Mulroney government. I  
20 assume that is a fair representation, but I wonder how  
21 we could misjudge the political sentiment so strongly in  
22 a country which is so important and so close to us.

23 If that is the case, has it affected your  
24 negotiations, your approach to the schedule of the events?  
25 We have had a lot of speculation today about who is being

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1 brought in when.

2 MR. YEUTTER: Good question. The issue is this.  
3 What about the political sensitivities of this entire  
4 exercise and has all of that had some impact on the  
5 scheduling and the timetable and the process?

6 My answer would be that it, obviously, is much  
7 more sensitive politically in Canada than it is in the  
8 United States. I find it difficult to comprehend why  
9 that is the case, but one must always deal with reality,  
10 rather than with what are perceptions of what should have  
11 been might be. It is the real world that we live in,  
12 not a fantasy world.

13 So, one must recognize that this has become  
14 an issue for debate in Canada. My personal judgment, as  
15 an economist, is that this negotiation ought to have  
16 widespread support in Canada. As an economist, I am  
17 convinced that Canada will be by far the greater beneficiary  
18 of the exercise.

19 If that be perceived in Canada -- and I certainly  
20 haven't seen any persuasive evidence to suggest otherwise --  
21 then there ought to be broad support for the Mulroney  
22 government which started the exercise and for the  
23 negotiating result when it is finally presented to the  
24 Canadian Parliament. I see this as a big winner for the  
25 government of Canada over the next half century. In that

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1 regard, I will say to you that I returned a few weeks ago  
2 from our first annual consultations with the government of  
3 Israel on our free trade arrangement with Israel. Although  
4 clearly the -- one cannot go too far with analogies  
5 between Israel and Canada because Canada is, obviously,  
6 a much larger trading partner and one that is right near  
7 by. There isn't any question about who has become the  
8 major beneficiary of the U.S.-Israel free trade arrange-  
9 ment. It means much more in terms of Israel trade moving  
10 into the United States than vice versa. I happen to think  
11 that same result will prevail in Canada.

12 But I am perfectly willing to accept that  
13 because, even though Canada may gain more, I happen to  
14 believe the United States will gain a lot from the free  
15 trade arrangement. As long as both nations benefit, I  
16 am more than happy to have our Canadian friends benefit  
17 more than we do.

18 Let me extend those comments a bit by saying  
19 that there has always been some concern that there isn't  
20 much public support within the United States, either, for  
21 this exercise, that people on this side of the border  
22 just haven't paid much attention.

23 I would hope that folks in Canada won't pay much  
24 attention to that phenomenon because I am convinced that  
25 if we have a sound agreement, then we can obtain the

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1        approbation of that agreement within the United States,  
2        and we will have the public support to do so and the  
3        congressional support to do so. We will have to carry  
4        out our consultation processes effectively, and we clearly  
5        will have to have a substantive work product that justifies  
6        support. But as long as we can do that -- and I believe  
7        we can do that on both sides -- in this negotiation, the  
8        support will generate and will prevail here in the U.S.

9                I was talking to someone at the table here  
10       tonight and analogizing to the new Uruguay Round. About  
11       18 months ago, shortly after I came back to government,  
12       I heard those same comments about a new round of trade  
13       negotiations. When I visit Capitol Hill, many Members of  
14       Congress said to me, "We don't hear anything about the  
15       desirability of a new round of trade negotiations; nobody  
16       in the business world is talking about this; I don't hear  
17       from any constituents on this; why is the Administration  
18       out front pushing a new round of trade negotiations;  
19       forget it; nobody wants to do this."

20               Well, now that we have had Punte del Este and  
21       the new round is underway, there is a lot of support for  
22       that negotiation that has come out of the woodwork.

23               I happen to think that it was there all the time.  
24       It just hadn't surfaced. I believe there is strong public  
25       support for U.S.-Canada free trade negotiation that has

1 been there all the time and will surface when the time is  
2 right.

3 MR. HUDEC: Mr. Ambassador, if I recall correctly,  
4 I think that every speaker describing this Canadian  
5 position today began, as first priority with Canada, with  
6 changes in the United States anti-dumping and counter-  
7 vailing duty laws. I take you at your word that those,  
8 like everything else, are on the table. My question to  
9 you is: What do you think it would get in the way of a  
10 packaged concession structuring of this problem to get  
11 those issues from the table into a bill that STR might  
12 be willing to submit to the U.S. Congress?

13 MR. YEUTTER: That is a hard question. The  
14 question is how do you handle the subject of counter-  
15 vailing duty and anti-dumping laws.

16 My judgment is that those issues will have to  
17 be handled very carefully by both countries, that there is  
18 just as much interest in those issues on the Canadian side  
19 of the border as on the U.S. side of the border. There is  
20 just as much of a challenge in getting a bill that will  
21 be approved by the Canadian Parliament as there is in  
22 getting a bill that will be approved by the U.S. Congress.  
23 This is not an easy issue on either side because we are  
24 dealing with what are traditionally construed to be unfair  
25 trade practices. Nobody in Canada is going to be

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1 enthusiastic about a negotiated result that will permit  
2 American firms to engage in unfair trade practices to  
3 penetrate the Canadian market, anymore than Americans  
4 will be enthusiastic about proposals that will permit  
5 Canadian firms to penetrate the U.S. market through un-  
6 fair trade practices.

7 So, the problem goes both ways. Canadian firms  
8 can subsidize to penetrate other markets; American firms  
9 can subsidize or can be subsidized in order to penetrate  
10 other markets. Canada is not the only country with export  
11 subsidies. We have some export subsidies, too, from time  
12 to time. We think we have fewer than most everybody else  
13 in the world, but, then, once in awhile we pull one out  
14 in the United States. There have been a few dumping cases  
15 filed against American companies in Canada and elsewhere.  
16 There have been some dumping cases filed against Canadian  
17 companies in the United States.

18 It is an issue that has to be dealt with because  
19 no one is going to support the engaging in unfair trade  
20 practices with impunity, so we have to confront that  
21 question: How do we keep trade fair between our two nations  
22 so that that really doesn't become an issue or how do we  
23 deal with it if it becomes unfair in this context?

24 Well, Ambassador Warren and I talked about this  
25 at some length at the table, and I don't think we can get



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1 into the creative sorts of things that might be done. That  
2 is something that we will have to work on between now and  
3 October 1.

4 But there is no point in finishing this  
5 negotiation with a result in that area that will not fly  
6 in the U.S. Congress or in the Canadian Parliament.  
7 Nobody wants to be attacked by unfair trade practices.  
8 That is not a saleable proposition for the Canadian public  
9 or Canadian business community; it is not a saleable  
10 proposition for the American public or the American business  
11 community.

12 So, we have to confront that issue head on and  
13 try to deal with it in a fair and reasonable way, as it  
14 applies on trade going both directions.

15 That is an abstract answer, I am sorry to say;  
16 but there is just no way to be specific about that tonight  
17 because I don't think anybody has got the answers yet  
18 tonight.

19 Bruce, sorry that we can't keep going, but it  
20 is great to see you all. Good luck to you.

21 MR. MACLAURY: Thank you very much, Ambassador  
22 Yeutter, for some very candid and thoughtful comments.

23 That completes a very long day of discussion on  
24 a very important issue. Thank you all for being with us.  
25 We hope that we have advanced the ball somewhat during

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1 the day and we certainly have got some new issues on the  
2 table.

3 I will not use the phrase "everything is on the  
4 table."

5 Thanks ever so much. Good night.

6 (The conference was concluded  
7 at 8:25 p.m.)  
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